

*In addition to the assessment criteria, use the paper-specific markscheme below. Award up to the maximum marks indicated.*

1. (a) Using *at least one* diagram, explain why a firm in perfect competition might only be able to make supernormal (abnormal) profits in the short-run and not in the long-run. [10 marks]

Answers should include:

- a definition of supernormal (abnormal) profits
- an explanation of supernormal (abnormal) profits
- an explanation of perfect competition
- a standard short-run perfect competition diagram showing supernormal (abnormal) profit at profit maximizing output
- an explanation of short-run supernormal (abnormal) profit leading to entry of new firms into the industry, the market supply curve shifting right, price falling and the supernormal (abnormal) profits being eliminated (until only normal profits are made).

Answers may include:

- a distinction between the short-run and long-run in microeconomics
- diagrams to illustrate the last bullet point above
- an explanation of why short-run abnormal profit is made.

Examiners should be aware that candidates may take a different approach which if appropriate, should be rewarded.

#### Assessment Criteria

#### Part (a) 10 marks

Level		Marks
0	Completely inappropriate answer.	0
1	Little understanding of the specific demands of the question. Very little recognition of relevant economic theory. Relevant terms not defined. Significant errors.	1–3
2	Some understanding of the specific demands of the question. Some recognition of relevant economic theory. Some relevant terms defined. Some errors.	4–6
3	Understanding of the specific demands of the question. Relevant economic theory explained and developed. Relevant economic terms defined. Few errors. Where appropriate, diagrams included.	7–8
4	Clear understanding of the specific demands of the question. Relevant economic theory clearly explained and developed. Relevant economic terms clearly defined. No major errors. Where appropriate, diagrams included and explained. Where appropriate, examples used.	9–10

- (b) Evaluate the view that perfect competition is a more desirable market form than oligopoly.

*[15 marks]*

Answers may include:

- an explanation of the difference between perfect competition and oligopoly
- perfect competition and oligopoly diagrams
- an explanation of the term “desirable” (stakeholder approach)
- comparison in terms of:
  - productive efficiency
  - allocative efficiency
  - short-run and long-run efficiency
  - economies of scale
  - price, output and profits
  - consumer choice
  - impact of product differentiation/non-price competition
  - freedom of entry to the markets
  - the ability/lack of ability to price discriminate
- assessment of which market form is most desirable.

Effective evaluation may be to:

- consider short-term versus long-term consequences
- examine the impact on different stakeholders
- discuss advantages and disadvantages
- prioritize the arguments.

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